



**STATEMENT OF  
DAVID F. WOODS, CLU, ChFC**

Chief Executive Officer  
National Association of Insurance and  
Financial Advisors

And

President  
Life and Health Insurance Foundation  
For Education

*Before the*

House Financial Services Subcommittee on Capital Markets, Insurance and  
Government Sponsored Enterprises

Regarding:

G.I. Finances: Protecting Those Who Protect Us

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Good morning, Chairman Baker, Ranking Member Kanjorski and Members of the Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises. Thank you for the opportunity to appear before you today to discuss the financial security of the members of our Armed Forces and their families.

My name is David Woods. I am the Chief Executive Officer of the National Association of Insurance and Financial Advisors (NAIFA) and President of the Life and Health Insurance Foundation for Education (“LIFE”).

NAIFA is a federation of approximately 800 state and local associations representing over 225,000 life and health insurance agents and advisors and their employees. Originally founded in 1890 as the National Association of Life Underwriters, NAIFA is the nation’s oldest and largest trade association of life and health insurance agents and financial services professionals.

NAIFA’s mission is to improve the business environment, enhance agents’ professional skills and promote the ethical conduct of agents and financial advisors (whether or not they are NAIFA members). The mission of agents and financial advisors, in turn, is to assist individuals – including military personnel – in achieving financial security and independence.

LIFE, a non-profit educational organization founded in 1994 by six life and health insurance agent organizations in the United States, was formed to address the growing need to educate the public about the essential role of life and health insurance in a sound financial plan. LIFE is not a legislative advocacy organization.

NAIFA and LIFE commend you for holding a hearing on this important issue. We have actively worked on this issue for a number of years, and hope that your involvement will speed action toward improved financial education for military men and women, improved enforcement of consumer protections, and improved regulatory supervision of insurance sales to members of the military.

## **NAIFA and LIFE Condemn Unethical Sales Practices**

Recent press accounts alleging improper sales practices by insurance agents doing business with military personnel has understandably raised serious concerns not only in the Armed Forces and, as this hearing indicates, in Congress, but also in the insurance agent community. As our mission statement indicates, NAIFA's "reason for being" is to promote professional, ethical business practices. We believe that the vast majority of life agents who have military personnel as clients provide an important service and adhere to the highest professional and ethical standards in so doing. We condemn, however, agents who engage in deceptive and/or unethical sales practices and have consistently worked to eliminate such practices for the protection of all insurance consumers – including military personnel whether they live on-post or off.

The interests of the Department of Defense (DoD), Congress, NAIFA and LIFE are aligned in the fight to stop deceptive and unfair practices in the sale of insurance products. We want to facilitate the identification and removal of all individuals who engage in improper sales practices, and have been working at both the state and federal levels to make that happen. For example, NAIFA has offered its expertise to the DoD for many years in development and revisions of DoD Directive 1344.7. That regulation governs commercial sales practices on military bases. NAIFA also has been active in supporting legislative proposals that would allow both state insurance commissioners and insurance companies access to the FBI's criminal history database to improve and expedite criminal background checks of all agents and applicants. In addition, we have recommended that DoD have access to that database.

## **NAIFA and LIFE Support the Right of Military Personnel to Provide for the Financial Security of their Families**

While we must be steadfast in guarding against unethical – and possibly illegal – sales practices, we believe the importance of ensuring that military men and women have access to insurance products cannot be overstated. "Life insurance is not for the people who die, it's for

the people who live.” This is the essential reason that education about life insurance – and meaningful access to life insurance products – is so important for members of our Armed Forces. Our military personnel put themselves in harms way every day. They owe it to themselves and their families to be on sound financial footing. Because a financial plan without life insurance is simply a savings plan that dies when the owner does, it is critical that life insurance be considered in conjunction with the creation of any general financial plan for any service man or woman.

In the present climate of heightened security and continuous threat, the availability and reliability of insurance products is paramount – particularly for military personnel. Servicemembers' Group Life Insurance (SGLI) provides excellent benefits to help protect the families of our nation's military personnel. Individual families have unique needs, however, and some men and women serving in the military may want – or need – the freedom to choose additional or separate insurance and investment products for themselves and their families, particularly if post-military service needs are a factor.

### **Regulation and Oversight of Insurance Sales on Military Bases is the Responsibility of Both the Department of Defense and the States**

The sale of insurance on military bases is governed by both the federal government, through the Department of Defense, and the states, which are the nation's primary regulators of insurance.

***Department of Defense Directive 1344.7:*** DoD Directive 1344.7 (the Directive) governs the time, place and manner in which insurance agents may conduct business on military installations. The regulation creates mechanisms for redressing any violations, giving the installation commander broad discretion to bar individuals from further on-base solicitation for any infraction of the regulation, or any other basis provided it is in the best interest of the command. The Directive provides a framework to achieve the goal shared by NAIFA and the Department of Defense to protect military personnel without needlessly excluding reputable insurance companies and insurance agents from offering their services on military bases .

While the installation commander has extensive authority to determine the time, place and manner under which insurance sales can be made, the Directive permits the service men and women themselves to rightly retain ultimate authority to decide whether to purchase insurance products. In addition, the regulation grants all insurance providers equal access to on-base military personnel, provided they comply with all applicable laws, and allows agents to represent multiple insurance companies. This preserves competition without compromising the integrity of on-base sales, both of which benefit military personnel.

***State Regulation of Insurance:*** The DoD's restrictions and limitations on insurance companies and agents are limited to on-base solicitation. This allows the DoD to effectively regulate and eliminate deceptive solicitation practices *on military bases*, without encroaching on the authority of the states to comprehensively regulate the business of insurance. Pursuant to the McCarran-Ferguson Act, 15 U.S.C. § 1101, et. seq., primary responsibility for regulation of the business of insurance is vested in the states. Market conduct – including market practices, sales, trade and claims practices, false advertising, and other consumer protections – is heavily regulated by the states, as is financial solvency.

### **The DoD, the States and the Insurance Sector Must Work Together to Ensure the Protection of Military Men and Women**

The current DoD regulation and applicable state rules strike the proper balance between guaranteeing the right of military personnel to have meaningful access to insurance products and financial education, and ensuring ample protection for these insurance consumers from predatory sales practices. The current regulatory structure establishes a workable mechanism for the supervision of insurance agents on and off military bases. The problem, however, is the lack of coordination and communication between the DoD and state insurance regulatory authorities, and the lack of adequate enforcement of existing rules.

NAIFA and LIFE believe DoD and the state insurance commissioners, through the National Association of Insurance Commissioners (NAIC), should work together to develop a

scheme for the improvement of communication regarding complaints and disciplinary actions, coordination of oversight of insurance sales on military bases, and improvement in enforcement of both DoD rules and state laws.

***The Burns Bill:*** NAIFA applauds Rep. Max Burns (R-GA) for his efforts to provide solutions to these communication, coordination and enforcement problems with the introduction of the “Military Personnel Financial Services Protection Act.” We enthusiastically support the proposal’s embrace of state insurance regulatory authority and the encouragement given to the states to implement standards to protect members of the Armed Forces, whether they are located on- or off-base. The bill supplements the authority of base commanders by clarifying a significant area of uncertainty under current law regarding state insurance regulatory authority in connection with insurance transactions on military installations.

I would like to note one provision of the proposed bill that could be the cause of some concern to the life insurance industry. Section 3 amends section 27 of the Investment Company Act of 1940 (the 1940 Act), essentially prohibiting a specific type of mutual fund investment product. It is NAIFA’s understanding that the narrow focus of this provision is not intended to outlaw the sale of variable life insurance and annuities products, which are specifically exempted from the restrictions of section 27 of the 1940 Act. The actual language in the Burns bill could be interpreted more broadly, however, and lead to unintended, and significantly problematic, consequences for the insurance industry and insurance consumers. We look forward to working with Rep. Burns and the Committee to refine the language so that its intent is clear.

***NAIFA and LIFE Support Basic Financial Education for Military Men and Women:*** DoD Directive 1344.7 addresses the general lack of financial education among young military personnel, as well as the need of military commanders to maintain order and discipline. NAIFA and LIFE recognize that the majority of military personnel are young and often have little financial background or formal financial-planning education. This is true not only in the Armed Forces, but in society as a whole. In fact, last year a bill was introduced in the U.S. Senate that recognizes this problem and aims to counteract it directly. Senator Debbie Stabenow’s (D—Mich.) introductory statement for S. 1532 included alarming statistics that demonstrate that the

vast majority of young adults have difficulty understanding even basic financial concepts. We support the framework established under the Directive by which military personnel *can and do* receive this critical financial education.

NAIFA and LIFE believe that allowing insurance agents and advisors access to military personnel improves the fundamental financial education of young military personnel and is a practice that should be continued. The insurance industry is adept at transmitting a foundation of basic financial knowledge to military personnel and other young people. At the same time, LIFE provides crucial risk-based financial planning information directly to a broad spectrum of society, including students. In fact, LIFE already provides educational programs and materials to 25 percent of high school juniors and seniors throughout the country. The LIFE Foundation has offered to provide educational programs and materials it has already developed to the DoD for financial education for service men and women.

***NAIFA/ACLI Best Practices:*** Passage of the Burns bill and improved financial education for military personnel would clarify current laws and regulations, and make their balanced approach to oversight of insurance sales on military bases more effective. With these same goals in mind, NAIFA and the American Council of Life Insurers (ACLI) developed a set of best practices for military insurance sales and their functional regulation. The “Best Practices for Military Insurance Sales and Their Functional Regulation,” a copy of which is attached, recommend changes for both regulators and industry and will lead to improved protections for military men and women.

Generally, the best practices address:

- (i) functional regulation, suggesting how the DoD and the state insurance regulators should work together to make regulation of insurance sales on military bases as seamless as possible; NAIFA believes that a critical first step in this process is to put a mechanism in place requiring base commanders to report complaints and disciplinary actions to a central DoD database, the relevant state regulators, and any applicable insurance companies;

(ii) financial literacy, calling for education of insurers and agents regarding the unique aspects of selling insurance to military personnel on military installations, ensuring that education programs are separate from selling opportunities, and encouraging the DoD to provide basic financial education to service men and women, possibly utilizing the resources of the LIFE Foundation, which has offered to provide educational programs and materials to DoD for financial educational programs; and

(iii) military base market conduct, including credentialing and identification of insurers and agents, emphasis on the “free look” after a policy is purchased, discouraging high pressure selling by, for example, designating specific areas for meetings between agents and military personnel, and encouraging insurance companies and agents to seek objective evaluation of the product and the sales process.

Our hope is that the development of these best practices – and their adoption by the DoD, the state insurance regulators, and the insurance private sector – will lead to improved cooperation and communication among the DoD, base commanders, and the state insurance regulators. Better enforcement of current laws and regulations and increased compliance with current laws and regulations will ultimately result in a system in which military personnel enjoy the full protections of insurance supervision and regulation, and ensure they will not fall victim to unscrupulous sales tactics.

Thank you for the opportunity to speak to you today and for your consideration of our views. NAIFA and LIFE have a strong interest in the protection of military personnel from unethical and illegal sales practices. We look forward to working with you to improve the knowledge level of young service men and women about risk-based insurance products like life insurance and to eliminate improper sales practices on military bases. We believe the NAIFA/ACLI statement of best practices are an important step in that process.

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**The American Council of Life Insurers  
The National Association of Insurance and Financial Advisors**

*Best Practices for Military Insurance Sales & Their Functional Regulation*

Military Installation Market Conduct

**The Defense Department should consult with the Insurance Marketplace Standards Association (IMSA) for guidance on the ethical standards of insurers and their insurance producers.** IMSA was established to help address public concerns about insurer market conduct and has established insurer assessment programs contributing to improved insurer operations and marketplace practices. IMSA maintains appropriate independence from other insurance trade associations to assure confidence in its mission. IMSA likely has programs and standards immediately useful to the Defense Department as a first check of the integrity of an insurer seeking access to military installations. IMSA membership or insurer completion of an IMSA assessment could serve as a credential offering a *prima facie* degree of confidence and “fast pass” access, even while not constituting a requirement for access, to military personnel. A company not willing to become an IMSA member or submit to assessment would not be barred from access but might simply not enjoy the presumption of competence attributable to IMSA qualification, thereby warranting more particular review prior to gaining access privileges.

**Each military installation should have locations designated for investment or insurance sales interviews.** Disturbing reports of high pressure selling in dormitories and barracks might be addressed by the designation of locations appropriate for meetings between financial service advisors and potential or existing military clientele. The installation commander would likely be the best positioned for such determinations.

**Every financial advisor or insurance producer should establish his or her identity as such via a business card given to each serviceman or woman contacted.** It takes just a business card with the financial advisor’s name, company, address, phone number and/or email contact, and state of insurance license to assure a serviceman or woman that he (or she) knows with whom he (or she) spoke about an insurance product, how to find the advisor or agent again, or how to identify to supervisors an individual trying to sell “out of bounds”. The certainty of agent’s identification also permits authorities to screen the individual, e.g., against the NIPR Producer Database.

**Emphasize the insurance “Free Look” benefit.** Insurance policies provide a distinctive benefit to consumers, an opportunity to exercise “buyer’s remorse” and cancel a contract days after one receives the finalized policy. The time period ranges from 10 to 30 days, depending upon state law. It is a perfect time to review the policy and evaluate any change in terms, conditions and rates. Military service personnel purchasing an insurance policy should acknowledge at the time of sale that they understand they will have the

advantage of the Free Look period, as well as the opportunity to consult with an advisor other than the insurance agent during that time.

**Insurers and producers should offer the opportunity for post sale evaluation of product and sales process.** Life insurers routinely survey newly insured individuals about their understanding of the product they have purchased, the reason for doing so, and their evaluation of the sales process. Insurers and producers seeking to sell life insurance to military personnel on post might create a survey form for specific use on military installations. In addition to insurers and producers, survey results should be shared with state insurance regulators and appropriate military installation personnel.

### Financial Literacy

**The Defense Department should be encouraged to provide basic financial literacy programs for junior enlisted personnel.** Such programs might provide, e.g., one hour per financial sector of basic introductory information to the differences between banking, securities and insurance products and services, and be provided by a credentialed instructor from a standard educational program. ACLI and NAIFA recommend the Life and Health Insurance Foundation for Education (LIFE) as a source of a basic educational program immediately available and capable of providing fundamental education about life insurance products and services. LIFE has offered to work with the Defense Department to provide basic education on life insurance use and products. LIFE already provides such educational material to 25% of high school juniors and seniors around the country. The investment and banking sectors may also have educational programs that might be easily obtained for Defense Department utilization.

**Financial advisors and insurance agents aspiring to sell products on military installations might be expected to be familiar with military sales rules and installation access protocol.** Every state requires insurance agents to pass educational requirements in order to obtain a license. Some states require pre-licensing education and most states require continuing education of their insurance agents. Indeed, insurance producers are among the most educated and regulated sales individuals of all American industries. Yet an insurance producer or investment advisor might not have reliable guidance with regard to military installation access protocol or Defense Department rules for selling financial services to our troops.

**Defense Department financial service educational programs might be separated from selling opportunity.** If GAO investigators confirm that events billed as opportunities for financial services education have been misused to coerce product sales, consideration might be given to separating educational from sales opportunities by time or space.

### Functional Regulation

**Centralize insurance supervisory activities within the Defense Department.** Every complaint about an insurance producer or insurer communicated to a state authority or resulting in a military installation sanction might be communicated to an individual or office within the Defense Department who can coordinate disciplinary activity with all regulators and all military installations. This office, over time, will be able to develop oversight of patterns or practices that might be further evaluated for propriety and addressed effectively by military directive. Centralized Defense Department supervision might provide liaison between every installation commander and state insurance commissioners, as well as field insurance inquiries and complaints arising from insurance sales activities whether they occur on or off the military installation.

**Resources might be authorized for the Defense Department to subscribe to the National Insurance Producer Registry (NIPR).** The NIPR is a subsidiary of the National Association of Insurance Commissioners (NAIC) that maintains a Producer Database of about four million (4,000,000) licensed insurance producers in the United States. The Defense Department can obtain instant access to every insurance producer in the country, including whether a producer's license has been suspended or revoked in any state, by subscribing to the NIPR.

**Defense Department Directive 1344 regarding Personal Commercial Solicitations should be synchronized with established financial services functional regulation.** The persistence of financial service problems on military installations suggests that relevant Defense regulations might obtain value added by the regulators with expertise in the different financial service sectors. Revisions to Directive 1344 should be vetted with the functional financial service regulators. Coordination between Defense Department financial services supervisors and financial service functional regulators could successfully leverage regulatory strengths.

**State insurance regulation applies to military installations.** Just as federal banking regulations are applicable to depository institutions located on military bases so, too, are state insurance regulations applicable to producers and companies engaged in the business of insurance on military installations or selling to active military personnel.

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